

## **MILLENNIUM PERMANENT ENDOWMENT FUND INVESTMENT POLICY**

### **I. Authority**

Idaho Code Chapter 18, Title 67 grants the Idaho State Treasurer with the authority to invest assets in the Idaho Millennium Permanent Endowment Fund (the “Fund”) within the standards of the Prudent Investor Act, Chapter 5, Title 68, Idaho Code. The Idaho Treasurer hereby establishes this investment policy to govern the investment and oversight of the Fund.

### **II. Scope**

This investment policy is for the Fund only and does not apply to any other monies overseen by the Idaho State Treasurer’s Office.

### **III. Nature and Purpose of the Fund**

#### **A. Background**

The Fund was created on January 1, 2007 as the result of a voter-approved amendment to the Idaho Constitution. The Fund will receive 80% of the tobacco settlement receipts (“Receipts”) collected by the State of Idaho. These Receipts are anticipated to be collected annually in April and continue through 2025. While the annual Receipts will vary, it is anticipated that the Fund will receive approximately \$17.8 million per year through 2025.

#### **B. Fund Beneficiaries**

Each year on the first business day in July, the Fund is required to distribute to the Idaho Millennium Income Fund (“Income Fund”) 5% of the average of its month-end market values for the 12 month period ending June 30<sup>th</sup> of the prior year (“Distribution”). This is the only Distribution the Fund is required to make. Thus, the Income Fund is the sole beneficiary of the Fund.

#### **C. Fund Purpose**

The purpose of the Fund is to provide Distributions into perpetuity. These Distributions are expected to experience growth over the long term consistent with the Fund’s strategic asset allocation policy. Because of the long-term nature of the Fund, short-term volatility of principle will be tolerated in the pursuit of higher long-term returns.

#### IV. Fund Objectives

##### A. Qualitative Objectives

The primary objective of the Fund is the long-term growth of real (inflation-adjusted) Distributions. Because the Fund's Distributions are entirely a function of the market value of Fund assets, growth in Distributions requires growth in Fund assets.

However, growth of Fund assets will not be pursued without regard to risk. Thus, it is also the Fund's goal to avoid excessive volatility in annual Distribution amounts resulting from a lack of adequate diversification. The Fund shall be diversified so as to minimize the annual volatility of returns consistent with the pursuit of higher long-term returns.

##### B. Quantitative Objectives

To quantify Fund objectives for purposes of evaluation, the Fund will be expected to meet or exceed its composite benchmark over a rolling three year period. The composite benchmark represents the Fund's strategic asset allocation, and is calculated as follows:

S&P 500	33%
Wilshire 4500	10%
S&P 500 Energy	10%
EAFE unhedged	15%
Lehman Aggregate	21%
Citigroup Non-US Government unhedged	5%
Lehman TIPS	5%
Goldman Sachs Commodity Index	1%

Asset allocation adherence to the composite benchmark is expected to satisfy both qualitative objectives of asset value growth over time and the avoidance of inappropriate annual volatility of returns.

#### V. Roles and Responsibilities

##### A. Idaho State Treasurer

The Idaho State Treasurer is ultimately responsible for investment and oversight of the Fund. The Treasurer may delegate some of its authority to its in-house Investment Manager, to its investment consultant, and to the investment managers of the Fund. In the case where authority is delegated, the Treasurer will evaluate, on a regular basis, the production of those to whom authorities were delegated. The specific responsibilities of the Treasurer include the following:

1. Establish an appropriate investment policy which directs the investment of the Fund's assets
2. Select qualified investment professionals to assist the Treasurer in implementing the investment policy
3. Enact proper procedures to monitor and evaluate the performance of the Fund relative to objectives and expectations
4. Take appropriate action to make changes when warranted

B. Investment Manager – Idaho State Treasurer's Office

The Investment Manager is responsible for implementing this investment policy. Specifically, this duty includes, but is not limited to, the following assignments:

1. Oversee the day-to-day operations of the Fund
2. Monitor the investment consultant, the investment managers, and the assets of the Fund to insure compliance with this investment policy and satisfactory results
3. Allocate Receipts of the Fund among investment managers
4. Rebalance manager allocations as necessary

C. Investment Consultant

The investment consultant is responsible for advising the Treasurer and its Investment Manager on investment matters. Specifically, this includes, but is not limited to, the following:

1. Conducting asset allocation studies to determining appropriate asset allocation structures for the Fund considering its characteristics and objectives as well as market conditions
2. Perform manager searches as needed
3. Report the performance of the Fund and that of its components relative to policy objectives
4. Analyze market and regulatory developments and recommend changes to the Fund as necessary

D. Investment Managers (Active)

The active investment managers are responsible for implementing the specific investment charter they are given. Each investment manager shall have a contract which specifies its duties, responsibilities, and performance expectations which may be unique to that manager. All active investment managers shall adhere to the following:

1. Investment in tobacco related securities is prohibited
2. Performance shall be reported on a quarterly basis within 10 business days after the end of the quarter
3. Proxies shall be voted according to the investment manager's proxy voting policy

E. Investment Managers (Passive)

The passive investment managers are responsible for matching the performance of a specified index. Each investment manager shall have a contract which specifies its duties, responsibilities, and performance expectations which may be unique to that manager. All passive investment managers shall adhere to the following:

1. Performance shall be reported on a quarterly basis within 10 business days after the end of the quarter
2. Proxies shall be voted according to the investment manager's proxy voting policy

F. Custodian Bank

The custodian bank will maintain possession of securities owned by the Fund, collect dividend and interest payments, and effect the receipt and delivery of securities for consideration following purchases, sales, or redemptions. The custodian bank shall create sub-accounts for the Fund as directed, and provide monthly asset statements for all sub-accounts of the Fund.

VI. Prudence and Ethics

The "prudent person" rule shall be applied to all agents of the Fund who have contractual advisory or investment responsibilities. In accordance with the prudent person rule, investments shall be made with the judgment and care, under the circumstances then prevailing, which people of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in

regard to the permanent disposition of their funds, considering the probable return to be derived therefrom as well as the probable safety of their capital.

Any individual involved in the investment process of the Fund shall refrain from any personal business activity that 1) could be construed as a conflict of interest or 2) would hinder their ability to make impartial and prudent decisions in fulfilling their duties to the Fund.

## VII. Asset Allocation

The Fund shall be diversified among various asset classes which are considered to be appropriate for achieving the Fund's return and risk objectives. The Strategic Asset Allocation and the Allowable Tactical Range adopted by the Idaho State Treasurer for the Fund are as follows:

	Strategic <u>Target</u>	Allowable <u>Tactical Range</u>
S&P 500	33%	27% - 38%
Wilshire 4500	10%	5% - 15%
S&P 500 Energy	10%	5% - 15%
EAFE unhedged	15%	10% - 20%
<b>Total Equity</b>	<b>68%</b>	<b>60% - 75%</b>
Lehman Aggregate	21%	15% - 30%
Citigroup Non-US Government unhedged	5%	0% - 10%
Lehman TIPs	5%	0% - 10%
<b>Total Fixed Income</b>	<b>31%</b>	<b>25% - 40%</b>
Goldman Sachs Commodity Index	1%	0% - 5%
<b>Total Commodity</b>	<b>1%</b>	<b>0% - 5%</b>

When market conditions push the allocation of any asset class outside of its Allowable Tactical Range parameters, the asset allocation must be rebalanced as soon as practical to restore compliance.

As the Fund grows, additional asset classes may be introduced. These assets classes include, but are not limited to, real estate, venture capital, and private equity.

## VIII. Reporting Requirements

Any agent employed by the Fund is expected to report to the Treasurer's Investment Manager any violations of this investment policy as soon as such violation becomes evident to the agent.

### A. Investment Manager – Idaho State Treasurer's Office

It is expected that the Investment Manager will be in frequent contact with the Treasurer on the activities and issues relating to the operation of the Fund.

That notwithstanding, the Investment Manager shall provide a quarterly report to the Treasurer which includes, but is not limited to, the following:

1. Performance of Fund assets relative to objectives
2. Performance of Fund managers relative to benchmarks
3. The market value of the fund and the factors that impacted its change from the last reporting period, including Receipts into the Fund and Distributions made by the Fund
4. The asset allocation of the Fund
5. Any compliance issues since the last reporting period

The Investment Manager shall also inform the Treasurer, as soon as practically possible of any of the following events:

1. If there is a violation of the principles set forth in this investment policy
2. If rebalancing action is required
3. If there has been an organizational change or other development with one of the Fund's agents that could impair that agent's ability to fulfill its obligations to the Fund

### B. Investment Consultant

It is expected that the investment consultant and the Treasurer's Investment Manager will be in frequent contact regarding operational issues of the Fund.

That notwithstanding, the investment consultant shall provide a quarterly report to the Investment Manager which includes, but is not limited to, the following:

1. Performance of Fund assets relative to objectives

2. Performance of Fund managers relative to benchmarks
3. The asset allocation of the Fund
4. Any compliance issues since the last reporting period
5. Any recommendations to improve the investment structure

The investment consultant shall provide an annual report to the Treasurer which includes, but is not limited to, the following:

1. A review of the asset allocation policy in light of market and regulatory developments
2. A review of the investment policy in light of market and regulatory developments
3. A review of asset classes and investment vehicles which could be appropriate investments for the Fund

C. Investment Managers

Fund investment managers shall report the performance of their account on a quarterly basis to both the Investment Manager and to the investment consultant. Additionally, investment managers shall adhere to the guidelines specified in their contracts and to report compliance to that contract on a quarterly basis.

IX. Policy Adoption and Review

The Idaho State Treasurer adopted this policy on January 10, 2008. This policy shall be reviewed no less than once every two years. However, the Idaho State Treasurer may amend this policy at any time circumstances dictate, specifically when statutes affecting the Fund are modified or when there is a material change in investment objectives, market conditions, or Receipt expectations.